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COUNTRY PROGRAMMES AND MID-TERM REVIEWS

FOURTH COUNTRY PROGRAMME FOR ALBANIA

Programme period	Actual resources programmed	$
1994-1996	Net IPF	6 074 000
	Estimated cost-sharing	-
	Total	6 074 000

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I. DEVELOPMENT SITUATION, OBJECTIVES AND STRATEGIES

A. Current socio-economic situation

1. After 46 years under a totalitarian communist regime and a centrally planned economy, during which it became increasingly isolated from the rest of the world, Albania emerged as the poorest nation in Europe. With the overthrow of the totalitarian regime in October 1990, most of the State-controlled structures that dominated the political, economic and social life of the population collapsed and the country went into a dramatic decline. Gross national product (GNP) per capita was estimated by the World Bank and the International Monetary Fund (IMF) at $670 for 1990, $630 for 1991 and $250 for 1992. Health statistics also give cause for concern. With 3.2 million inhabitants and a population density of 113 per square kilometre, the annual growth rate of the population is estimated at 1.6 per cent. While infant mortality was officially registered as 32 per 1,000 live births in 1989, recent analyses suggest that it is closer to 50 per 1,000. Maternal mortality has been estimated at 25 per 1,000 in recent years.

2. A major contributing factor to this declining economic and social performance was the lack, particularly in the initial year after the collapse of the totalitarian regime, of clear national direction to guide the country through the fundamental structural, political and socio-economic change involved in transition. In addition, the negative impact of the transition process on both living conditions and employment over the past two and a half years has not been counterbalanced in a sufficiently timely manner by the positive results of the reforms initiated to bring about a democratic society and a market-oriented economy. Over the last 18 months, following a change in national leadership resulting from the country's first free elections, held in March 1992, the transition process has begun to be managed in a more comprehensive and coherent manner, leading to the adoption of a set of structural reforms that are now providing a solid basis for economic growth and renewed national consensus. However, it is recognized that the time-frame of the transition period is a lengthy one and that there are serious political and social risks attached to the fundamental restructuring of Albanian society that is under way.

3. Nevertheless, there are reasons for optimism. For example, Albania's agricultural land, most of which is under irrigation, is very fertile. Despite the very low outputs in 1991 and 1992 (a consequence of the collapse of the state farm structure that forced the country to import more than 30,000 tons of wheat or other grains a month), a rapid restoration of production is possible if essential agricultural services and inputs are made available to the private owners who emerged after the massive land reform. Albania is also a country with still untapped natural resources and rich mineral deposits, including chromium, copper, nickel and petroleum. Another factor is the great potential for tourism development. Moreover, a strong human resource base exists to help realize all these potentials. The national literacy rate is 90 per cent and the labour force is technically well trained. Furthermore, it should be noted that Albanian women traditionally make up 50 per cent of the workforce, 37 per cent of the university graduates and 26 per cent of the teaching force.

B. National development objectives and strategies

4. Since April 1992, the Government has embarked on a rapid and profound transformation of the economy. With the full support of the international community and in line with the technical advice of the World Bank and the IMF, a package of macroeconomic and financial adjustment measures were adopted and immediately placed under implementation. The main objectives are to establish: (a) a new institutional framework; (b) a new legal framework; and (c) a new policy framework. These three objectives will be developed to foster a market-oriented economy operating within the environment of a modern democratic society.

5. From the long list of measures adopted and presently under active implementation, the following structural adjustment measures are to be highlighted: privatization of agricultural land; privatization of trade and services; recognition of private ownership and the adoption of return or compensation measures; liberalization of the national currency exchange and adjustment to international money markets; full liberalization of prices, except for bread; full liberalization of trade; budget deficit control and reduction; control of inflation; and restructuring of the industrial sector.

6. Severe pressure was placed on the Government as a consequence of the disintegration of the apparatus of State control that had permeated Albanian society and the almost complete halt in work that resulted. This emergency made it inadvisable and, in fact, virtually impossible to develop future programmes within the context of a formal plan; therefore no overall economic development plan was elaborated during the first year following the March 1992 elections. It was only in the third quarter of 1993 that a policy framework paper was prepared and adopted, covering the period 1994-1996. At the sectoral level, however, progress was made in the preparation and adoption of policy frameworks for the agricultural sector, the health sector and, to a lesser extent, the education sector. These strategic tools were developed primarily as an attempt to facilitate the mobilization of external support for those sectors which were seen as the most critical in ensuring a restart of the economy and in sustaining the national reform effort.

7. In opting for a shock therapy approach to reform, the Government accepted the consequent risks but at the same time made every effort to ensure that external support would be forthcoming. The level of commitments on the part of the donor community so far demonstrates that this Government strategy was based on sound assumptions.

II. EXTERNAL COOPERATION

A. Role of external cooperation

8. Total assistance committed by the donor community in support of the Albanian effort in transition over the past three years has amounted to $1.04 billion or $100 per capita per year. About 35 per cent of the total is being provided by the European Community, 30 per cent by Italy and 9 per cent by the United States. Emergency assistance represents 49 per cent of total aid

flows accorded, of which 40 per cent was in the form of food aid to meet the emergency of 1990 and 1991. The technical cooperation component is estimated to be approximately $90 million or about 9 per cent of total assistance allocated.

9. Technical cooperation disbursements have increased very quickly over the last three years, from $9 million in 1991 to $31 million in 1992 and to an estimated level of more than $50 million in 1993. However, technical cooperation commitments that remain undisbursed by the end of 1993 are estimated at $87 million. The share of the United Nations system (including multi-bi arrangements) of all technical cooperation activities represents, for the period 1991-1993, about 10 per cent of total technical cooperation commitments and less than 1 per cent of total Official Development Assistance (ODA).

10. The increasing volume of technical cooperation in support of Albania, a trend which is expected to continue over the next several years as Albania makes progress towards achieving its national objectives, is, however, already posing some absorptive capacity problems. For example, there is a high concentration of assistance in a limited number of sectors; an excessive recourse to technical cooperation loans that will increase the debt burden in the future; insufficient participation in programme and project activities on the part of national experts; and growing inefficiency of technical cooperation resulting from the overburdening of the capacity of the very limited national services.

B. Aid coordination arrangements

11. The Government has entrusted overall coordination of external assistance to the Aid Coordination Unit of the Ministry of the Economy and Finance. Other ministries have, however, specific responsibilities vis-à-vis particular donor countries and agencies. The Government focal point for the United Nations Development Programme (UNDP) is the Committee for Science and Technology.

12. The Government has opted for the European Community/G-24 external aid coordination mechanism. So far, no Consultative Group or round-table meetings have been envisaged by the Government. Under the present arrangement, the World Bank, IMF and UNDP are closely associated in the preparation and organization of all donor meetings organized under the leadership of the European Community/G-24 joint coordination unit. For example, the G-24 meeting on Albania in November 1993 used World Bank/IMF inputs in the form of a policy framework paper, a country economic memorandum and a public investment programme. UNDP contributed by preparing a report on technical cooperation and by collaborating with the European Community in the preparation of a report on overall aid cooperation. Since the G-24 aid coordination mechanism operates from its European Community headquarters in Brussels, UNDP in agreement with the European Community/G-24 coordinating unit has been entrusted by the Albanian authorities with the responsibility for organizing theme-specific donor consultations in Albania.

III. THE COUNTRY PROGRAMME

A. Assessment of ongoing country programme

13. The third country programme was prepared and approved in a political, economic and social context that obviously differed entirely from the present circumstances facing Albania. It concentrated on more traditional institution-building projects in a variety of sectors in response to requests submitted from a number of ministries. Most of the projects implemented under the previous programme are now completed and, although their impact may have been positive in terms of fulfilling their specific objectives, many of them have not contributed directly to the process of transition in which Albania is now engaged. They have, however, provided technical capacity in important areas and served as an opening to modern technology and ideas. However, UNDP resources other than the indicative planning figure (IPF), in particular the Special Programme Resources (SPR) funding of the Management Development Programme (MDP), were instrumental in the early stages of the transition in providing key ad hoc advice to the Government in several areas and later in helping to refocus the third country programme on management training, national capacity-building and on some essential institutional changes in specific government ministries.

B. Proposals for UNDP cooperation

1. Preparatory process

14. After the opening in August 1991 of the UNDP Office in Tirana, an effort was made to reach an understanding between Government counterparts and UNDP on the appropriateness of departing from traditional UNDP approaches towards cooperation in light of the dramatic changes that had occurred in 1990. In particular, it was decided that UNDP should play a role in support of the Government's efforts to move towards economic reform and to promote democracy. Identification and project formulation missions undertaken by MDP and United Nations specialized agencies including the Food and Agricultural Organization of the United Nations (FAO), the International Labour Organization (ILO), the United Nations Industrial Development Organization (UNIDO), the World Health Organization (WHO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO) as well as the Department for Development Support and Management Services (DDSMS) of the United Nations Secretariat prior to the opening of the office were also used as the foundation for elaborating the new orientation for future Albania/UNDP cooperation. The programming missions from MDP were particularly useful in ensuring that the scope of UNDP cooperation encompassed the linkages between economic and management issues faced in the transition period. The advisory note prepared by UNDP based on this preparatory work served as a reference point for the Government, which reviewed at the cabinet level the priorities they wished to select for the fourth country programme.

2. Strategy for UNDP cooperation

15. Given the growing understanding of the complexity of the transition process in Albania and the realization of the time, effort and resources required before the benefits of reform measures take effect, the Government has decided that UNDP resources should be used in strategic areas of support for the transition process. Considering the limited resources available from UNDP, it was necessary to find a balance between focusing on a select number of areas and using them as seed money, or what could be called participation money, for activities that will be primarily financed from other sources. It was felt that, ideally, UNDP programming should lead to projects which are, at best, only partially financed by UNDP. A key criterion for the selection of programmes is thus their complementarity to programmes under negotiation with major donors.

16. Another determinant factor in programme and project selection was the flexibility and speed which the use of UNDP resources offers (under the umbrella project approach) to identify and initiate activities in areas, perhaps neglected by others, where institutions with larger resources require considerable time to get started. In such areas, UNDP may continue with a small but strategic stake even after other donors have begun their activities. It is also considered that such UNDP participation will also assist the Government to strengthen its coordination of international support. The Government is also embarking on a number of UNDP-organized sectoral or theme-specific donor consultations prior to the design of new programmes. While this strategy does lead to a larger number of small programmes or projects (i.e., a generally unsound distribution of resources) it is felt that in the present situation this approach is a way of maximizing the potential impact of the limited funds of UNDP. It also helps to meet the Government objective of a broad involvement of the United Nations system in Albania's development effort.

3. Proposed UNDP cooperation in selected areas of concentration

17. Three areas of concentration for UNDP support in the fifth cycle are being proposed, in keeping with the national transition agenda. They are:

(a) Alleviation of the social impact of structural economic reforms, focusing on job creation, labour-intensive public works programmes and the creation of appropriate institutional and legal frameworks;

(b) Human resource development, including a focus on human rights and the consolidation of democratic processes; and

(c) National capacity-building, including management training, particularly for economic management, and the restructuring of key sectors, in both the public and private domain, as well as academic institutions, which focus on resource development activities (e.g., industry/mines/energy and science/technology).

Alleviation of the social impact of structural economic reforms

18. The most urgent and critical problems the country is facing relate to the shock of the sudden liberalization of the economy and to price deregulation, the second key measure already taken. The result of these two measures has been massive unemployment. Several hundred thousand jobs have been lost in the process of moving from State control of the economy at a time when real purchasing power had sharply declined. The combination of these measures is creating an unprecedented hardship on the average family although so far it appears that remittances from the many Albanian workers abroad have served as a cushion to mitigate the most serious impact of the situation.

19. To address the issue of economic hardship, the Government has decided to launch, as a first step, a large poverty alleviation programme for the most depressed rural zones. The programme aims at employing workers in the rehabilitation of the economic and social infrastructure and through the distribution of small-scale credit to families willing to start their own economic activities. The programme has been initiated on a pilot basis by UNDP in cooperation with the World Bank. The World Bank, the Poland, Hungary Aid for the Reconstruction of the Economy (PHARE) programme of the European Community, Italy and France have all committed extensive funding for the extension of the programme for the next several years. The same approach is now being followed in developing and launching a similar poverty alleviation programme for urban areas. An assessment of the impact of these programmes will be relatively easy to conduct by quantifying: (a) the number and total volume of salary payments made; (b) the size and number of infrastructural facilities rehabilitated; and (c) the number of small businesses that are developed under the small credit schemes.

20. In addition, UNDP is being requested to assist the Government in: (a) developing a revised wage policy; (b) setting up of a centre for retraining the unemployed; (c) relaunching obsolete textile industries using computer design technologies; and (d) assisting in the promotion of labour-intensive foreign investments.

Human resource development

21. The Government recognizes that the development of the country's human resources is central to the transformation of the society into a modern democracy. The Government also realizes the need for an integrated approach to human resource development based on the recognition that there is an interdependent relationship between the traditional sectors of health, education, and science and technology and that priority must be placed on employment, human freedom and increased opportunity. This integrated approach will optimize in the most efficient manner the use of Albania's generally well-educated and technically qualified labour force. Such a programme would include ways in which the Government, in partnership with other important constituencies (e.g., non-governmental organizations (NGOs), the private sector, local communities) can facilitate the process by which individuals develop and refine their knowledge and skill base while at the same time encouraging strong community leadership and fuller participation in society. Continuous improvements in education, health, employment and the empowerment of local

communities are necessary so that development initiatives and activities will become sustainable. For example, the entire education sector has to be redesigned and rebuilt and the preparation and adoption of a medium- to long-term strategy or master plan for the sector is to begin as soon as possible in order to ensure the optimal use of the resources, both external and national, allocated to this sector.

22. The main thrust of this programme area is therefore to put forward, within an integrated framework, priority activities to improve the human condition in Albania, to propose strategies for their implementation and to outline viable modalities for financing them. UNDP funds would be used as seed money to help initiate activities to mobilize additional bilateral and multilateral resources. The programme will cover the following areas:

(a) Educational reform to meet Albania's needs;

(b) Capacity-building for sustained human resource development and utilization;

(c) Management of economic and technical change in the public and private sectors; and

(d) Economic recovery and reconstruction.

23. In line with its determination to ensure that democracy takes hold in Albania, particularly in the public service, the Government has also requested UNDP to assist in the modernization of two of the central ministries that have a direct bearing on the public interest, the Ministry of Public Order and the State Control Services (Audit). It is proposed that these two activities be undertaken in cooperation with the United Nations Centre for Human Rights.

National capacity-building

24. From the beginning of the transition process, there was consensus on the urgent need to train and re-train the new managers in the country, both in the public and private sectors. The creation of a management training centre was, therefore, considered a top priority, following an agreement reached with the Government and other donor partners involved in public administrative reform. While there are a number of other donors involved in the area of public sector reform (e.g., the World Bank, EC/PHARE, the Organization of Economic Cooperation for Development (OECD)), UNDP has been given the lead donor agency role in the field of management training. ILO and other United Nations specialized agencies will be associated with programmes in this sector for which several donor agencies have already indicated their intention to provide funding. Complementing this area of management reform is the modernization of the teaching at the Faculty of Laws and Economics at the University in Tirana, which UNDP is also supporting.

25. The restructuring of the science and technology sector, which employs a great many well-trained technicians and engineers, is also considered crucial if past investment in this sector is not to be wasted. On the basis of the recommendations of the Committee for Science and Technology, the Government has

decided to pursue this priority area and has requested UNDP to become the principal partner in the exercise.

26. UNDP has also been asked to assist the Government in restructuring several ministries or public departments such as the ministries of Industries, Mines, Energy, and Natural Resources, as well as the Meteorological Services, the Patent Office and the Biological Institutional Services. All these activities will be implemented under joint or parallel financing arrangements with other donors.

27. Considering the fluidity of the present transitional situation in Albania, it is also considered highly appropriate to maintain in the country programme an umbrella project facility that will be used to complement approved programme activities through ad hoc funding of specific operational requirements as they arise. An indication of the nature of these activities is provided below.

C. Assistance outside main country programme areas

28. Although not directly linked to the three main areas of concentration, three additional projects are proposed for inclusion in the country programme since they constitute prerequisites for the sound future development of several sectors that hold considerable potential for the country. They are: (a) a feasibility study for a training centre for tourism; (b) a tele-informatics network for the transport sector; and (c) the preparation of a master plan for the road network of Albania. In addition to ensuring a start on major initiatives the Government considers of high priority, UNDP involvement in the early stages of these sectoral analyses will ensure that the environmental impact of these new projects is taken into account through the incorporation into them of environmental impact assessments at the planning stage.

D. Implementation and management arrangements

29. While the Government wishes to use the limited UNDP resources to achieve the variety of impacts outlined above, it is of the view that a programme approach would give a more coordinated and synergetic orientation to development. The Government will therefore attempt to move in this direction. However, in the state of serious economic and social crisis that exists in Albania and with the limited experience that national counterparts have in the implementation of development cooperation programmes, it is considered appropriate to continue to introduce the programme approach and national execution on a pilot basis in a selected number of areas. More importantly, it has become clear to the Government that the need to negotiate separate programmes with each donor has strained Government resources and has been a factor in undermining its capacity to coordinate assistance in a way that would maximize meaningful impact on the beneficiaries. In the light of the prevailing scarcity of development assistance resources, the Government is even more cognizant of its responsibility to ensure the most efficient use of all available resources. In this respect, both the programme approach and national execution are seen by the Government as a way not only of cementing national ownership of the programmes but also of ensuring their sustainability. As

national managerial capacity improves and as national counterparts achieve greater experience, the Government intends to take increasing advantage of the capacity-building benefits flowing from national execution.

30. The design of medium- and long-term national and sector strategies has not yet been achieved and many Government decisions are still required to address issues on a short-term basis. It is therefore preferred that only limited innovations should be introduced at this stage in UNDP cooperation modalities while Albania continues to come to grips with transition. Modalities such as technical cooperation among developing countries (TCDC), United Nations Volunteers (UNV), the Transfer of Knowledge through Expatriate Nationals (TOKTEN), United Nations International Short-Term Advisory Resources (UNISTAR), and NGOs have been reviewed with the Government counterpart officials and it is agreed that they should be introduced to the extent appropriate in the hope that by the end of the cycle a variety of Government authorities will be comfortable with at least some of them.

Annex I

FINANCIAL SUMMARY

I. ESTIMATED RESOURCES (IPF + cost-sharing) TAKEN INTO ACCOUNT FOR PROGRAMMING

	$	$
Carry-over from fourth cycle IPF	1 291 000	
Fifth cycle IPF [75 per cent]	5 983 000	
Estimated 1992 and 1993 expenditures	(1 200 000)	
Subtotal IPF		6 074 000
Government cost-sharing	-	
Third-party cost-sharing	-	
Subtotal cost-sharing		-
TOTAL		6 074 000

II. ALLOCATION OF RESOURCES (IPF + cost-sharing) BY AREA OF CONCENTRATION

Area of concentration	United States dollars			Percentage of total resources
	IPF	Cost-sharing	Total	
Alleviation of social impact of structural economic reforms	1 150 000	-	1 150 000	18.9
Human resource development, including human rights and democratization	775 000	-	775 000	12.8
National capacity-building	2 073 000	-	2 073 000	34.2
Activities outside areas of concentration	580 000	-	580 000	9.5
Unprogrammed reserve	1 496 000	-	1 496 000	24.6
TOTAL	6 074 000	-	6 074 000	100.0

III. COMPLEMENTARY ASSISTANCE FROM OTHER SOURCES

		$	$
A.	UNDP-administered funds		310 000
B.	Other United Nations resources		
	JCGP participating agencies		
	UNFPA	-	
	UNICEF	-	
	Global Environment Facility	-	
	Subtotal		-
C.	Other non-United Nations resources		-
	TOTAL		310 000

Annex II

PROGRAMME MATRIX

Area of concentration	Area of focus					
	Poverty eradication and grass-roots participation in development	Environment and natural resource management	Management development	TCDC	Transfer and adaptation of technology	WID
Alleviation of poverty	*					*
Human resources development		*	*			*
National capacity-building		*	*	*	*	*